

Top Secret

(Security Classification)

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NATIONAL INTELLIGENCE DAILY CABLE

Monday 23 January 1978

CG NIDC 78/018C

NATIONAL SECURITY INFORMATION

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State Dept. review completed

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Approved For Release 2007/03/06 : CIA-RDP79T00975A030500010036-3

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National Intelligence Daily Cable for Monday, 23 January 1978

The NID Cable is for the purpose of informing senior US officials.

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ITALY: Andreotti's Plans

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[REDACTED] //A source close to Italian Prime Minister-designate Andreotti has told the US Embassy in Rome that Andreotti is thinking about streamlining the next cabinet and would like to obtain a more specific version of the policy program agreement negotiated with the Communists and other parties last summer. Andreotti is scheduled to begin discussions with leaders of the other parties today.//

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[REDACTED] //Andreotti reportedly is thinking about renovating the cabinet in a way that would appeal to both the Communists, whose cooperation he needs to form a government, and to the younger, reform-minded Christian Democrats who are the main opponents of any significant new concessions to the Communists.//

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[REDACTED] //The Ministry of Budget and Economic Planning, for example, would be eliminated and its functions would be placed under the Prime Minister and managed by some of the younger Christian Democratic leaders. In addition, the Ministries of Treasury and Finance would be combined, and Treasury Minister Stamatti, sharply criticized by organized labor, would be dropped. Also slated for removal are Labor Minister Anselmi and Industry Minister Donat Cattin, both disliked by the Communists.//

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[REDACTED] //As for government policy, Andreotti would apparently like to work for a more specific version of the program agreement negotiated last summer; it focused mainly on the economy and public security but papered over differences on many controversial issues.//

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[REDACTED] //Andreotti would be willing to have the Communists vote affirmatively with the government in parliament on the agreed program, but presumably not on other government initiatives. Borrowing an idea advanced earlier by the Communists, Andreotti also plans to propose creation of an interparliamentary committee to supervise the implementation of the program.//

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[REDACTED] //The Communists will like the latter idea, but will probably balk at Andreotti's suggestion that the party join the governing majority only on votes for specific programs.

Although the Communists clearly are prepared to settle for less than the cabinet posts they are publicly demanding, they appear at this point to regard full participation in the governing majority as their minimum condition for further cooperation. In short, they want to be consulted formally on the full range of government activities

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USSR: Military Exercise

25X1 [] The Soviets have, for the first time, invited representatives from the US, the UK, Belgium, and the Netherlands to observe a military exercise. The exercise, which was announced in compliance with the Helsinki accords, will take place next month. The Soviets have also invited observers from West Germany, France, Luxembourg, Switzerland, and several Warsaw Pact countries.

25X1 [] The timing of the invitations appears planned to coincide with the follow-up talks to the Conference on European Security and Cooperation in Belgrade, which resumed Tuesday after a yearend recess. The Soviets want to embellish their record of compliance with the military provisions of the accords, possibly to improve prospects for consideration of a proposal they submitted in October that would limit military maneuvers in Europe to 60,000 men.

25X1 [] The coming exercise, designated "Berezina," is the fifth the Soviets have announced since the Helsinki accords were signed in 1975. It will take place in the area of Minsk, Orsha, and Poltosk in the Belorussian Military District between 6 and 10 February. Its purpose is to coordinate operations of different branches of the services; it reportedly will involve air and ground units totaling about 25,000 men.

25X1 [] The Helsinki accords require signatory countries to announce all military maneuvers involving more than 25,000 men, but they do not require invitations to observers. The Soviets nonetheless announced an exercise last July in the Carpathian Military District and issued invitations to five non-Pact members. Four of these--West Germany, France, Italy, and Switzerland--had never before been invited to observe a Soviet exercise. []

WEST GERMANY: Schmidt's Speech

25X1 [] West German Chancellor Schmidt was generally positive in his remarks about the US in the annual government declaration to the Bundestag Thursday, but the Chancellor remains concerned about the West German - US relationship. In his

speech, Schmidt dealt with foreign policy at greater length than usual in an attempt to highlight his responsibilities as a statesman at a time of domestic political dispute in West Germany. On some domestic issues, Schmidt was defensive, but the overall tone of his statement was upbeat.

25X1 [] Schmidt's references to the US were generally favorable, but there was a clear message that West Germany will not risk inflation by attempting to be the "locomotive" that pulls the world out of the recession.

25X1 [] In extensive remarks on the world economic situation, Schmidt said the government had lived up to its international responsibilities by undertaking various stimulative programs that produced budgetary deficits. He said that the government and the Bundesbank have created the conditions for economic recovery at home and "there is no more to be expected."

25X1 [] The Chancellor welcomed President Carter's recent statements on the dollar and cited the credit agreement between the Federal Reserve and the Bundesbank as proof the US is ready to strive for more stable currency relationships. At the same time, Schmidt stressed the problems caused by a weak dollar; he noted that it had hurt German exports and affected the entire West German economy.

25X1 [] The positive tone of Schmidt's remarks about the US presumably was meant as a reaffirmation of the alliance in the face of generally critical views of the US role in the world taken in recent weeks by German media.

25X1 [] Schmidt's concern about the US - West German relationship, however, is greater than he would admit to the Bundestag. On Wednesday, a newspaper in Bonn published a blunt article about US - West German relations that presumably reflects Schmidt's personal views. This article expressed Bonn's annoyance over "continuing" US efforts to portray West German economic policies as being responsible for the plight of the dollar. It also cited a number of other problems in bilateral relations and said Schmidt is seeking to clear up potential differences before President Carter comes to West Germany.

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[] In discussing other topics during his speech, Schmidt was defensive concerning an espionage case for which the opposition seeks to make Defense Minister Leber the scapegoat, and on the current problems in East - West German relations. The Chancellor's strong, personal endorsement of Leber suggests that he expects the Defense Minister to survive the Bundestag's inquiry into the espionage case.

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[] On inner-German relations, Schmidt acknowledged that the recent East German closure of the East Berlin office of the West German magazine *Der Spiegel* and its denial of entrance to East Berlin to prominent West German opposition politicians were "not in accord with the obligations." But Schmidt took a biblical stance, saying he would not follow an "eye for an eye" policy toward East Germany. []

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PERU-ECUADOR: Border Situation

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[] Peru's exaggerated reaction last week to incidents on its border with Ecuador appears to have been motivated at least in part by domestic political considerations. The military high commands of the two countries met late last week to adopt measures to prevent a recurrence of such skirmishes, for which both sides are occasionally at fault. Peru seems unlikely either to take aggressive action or to wage a sustained propaganda campaign against its militarily weaker neighbor.

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[] The pointed communique issued by Peru last Wednesday--in which it charged that Ecuadorean troops had attacked several border posts and seized some Peruvian territory--was in response to a series of minor border incidents going back to July. Peruvian President Morales Bermudez reportedly issued the public statement at the urging of the military joint command despite misgivings by his own Foreign Ministry and an urgent telephone appeal from Ecuador's President Poveda to handle the matter confidentially through military channels.

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[] Morales Bermudez' overriding consideration appears to have been the need to strengthen his position with Peru's military leadership at a time of severe economic instability and potential widespread labor unrest. The government, which recently announced a harsh new set of austerity measures, reportedly had been worried that a leftist-led general strike scheduled for this week might lead to violence.

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[] The strike was called off late on Thursday by labor leaders who cited the "gravity of the national defense situation." This was probably a face-saving ploy, in fact, as they appeared to have little chance to equal the success of the widely supported general strike last summer. Nevertheless, the government continues to be concerned that the public will react strongly once it begins to feel the effects of sharp price increases for food staples and transportation.

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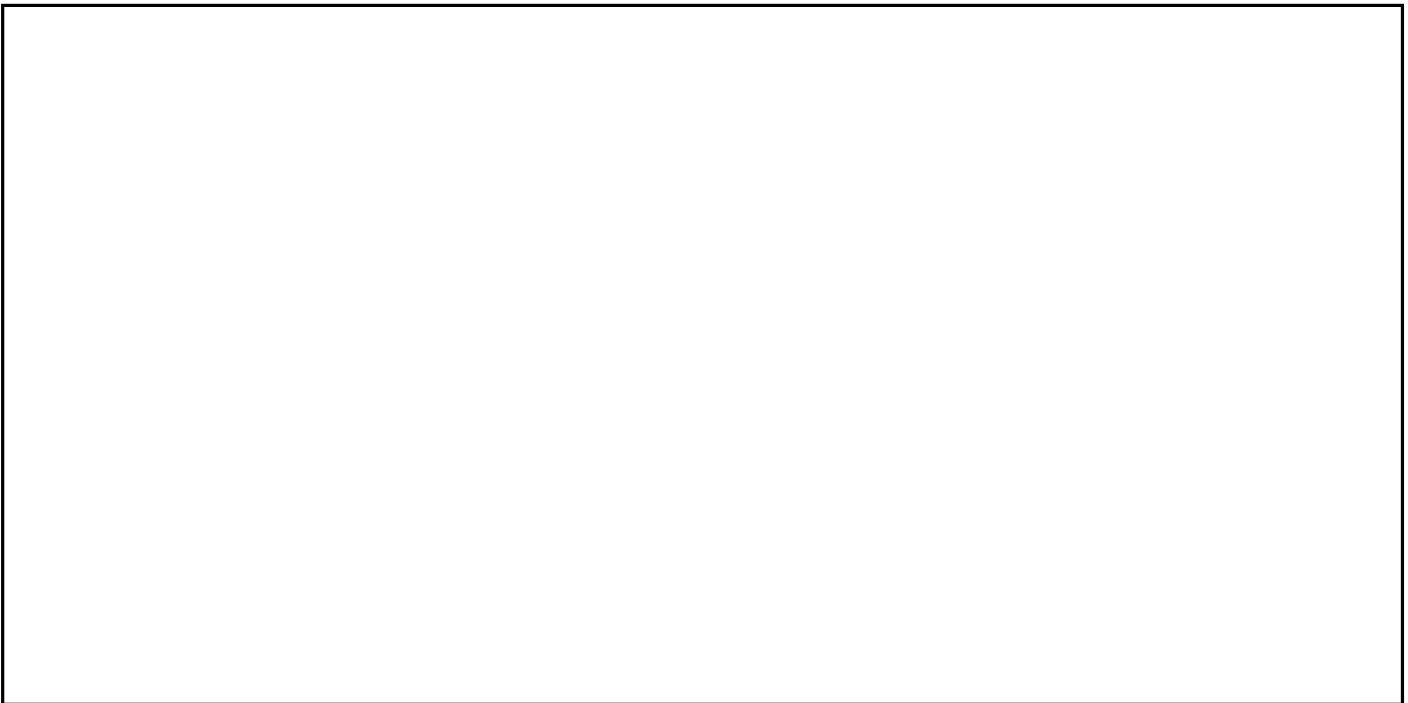
[] Despite these concerns, the Peruvian Government does not appear inclined at present to exploit further its problems with Ecuador to distract public attention from the country's economic plight. Peruvian Army Chief of Staff Richter, after the meeting with his Ecuadorean counterpart near the border, announced that a good "tactical agreement" had been reached. He later told newsmen that "there are no problems" with Ecuador, a further indication of Peru's willingness to resolve the border incidents in a low-key manner. []

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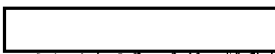
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MALAYSIA: Political Situation

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 //Speculation is growing in high political circles in Malaysia that Prime Minister Hussein Bin Onn will soon step down because of poor health. Hussein reportedly intends to call an election within the next few months.

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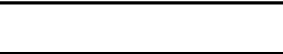
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 //Hussein's determination to run in the election probably stems from his desire to keep conservative Malays from jumping into the race and further dividing the Front-- which has already lost some support in a recent provincial dispute. The moderate Hussein seems fairly assured of winning,

and probably would like to be succeeded by Mahathir, who is also a moderate but does not yet have sufficient party support to win the premiership on his own.//

25X1 [redacted] //The Front's lack of funds apparently prevents Hussein from calling the election now. The Front, however, should have little difficulty raising money, and Hussein undoubtedly will make his move as soon as the campaign coffers permit. [redacted]

CHINA-VIETNAM-CAMBODIA: Visit

25X1 [redacted] *The recent visit to Cambodia by Madame Chou En-lai, widow of the former Chinese Premier, will probably produce mixed results for China's effort to avoid any political fallout from the border dispute between Cambodia and Vietnam.*

25X1 [redacted] The official announcement of Madame Chou's return to Peking on Saturday characterized the visit as "successful" and "friendly." This and the warm tone of the public exchanges during her four-day stay in Cambodia suggest that she and the two senior Asian specialists who accompanied her managed to reassure Cambodian leaders of China's continued support and allay possible suspicions that Peking has been dealing with Hanoi behind Phnom Penh's back.

BRIEFS

Syria

25X1 [] The Syrian People's Assembly yesterday unanimously approved a Baath Party proposal nominating President Asad to another seven-year term. A plebiscite will be held on 8 February.

25X1 [] Asad has moved in recent weeks to ensure strong support by pushing through a series of pay hikes, promotions, and other popular administrative measures. He hoped these steps would boost his popularity, which suffered as a result of a troubled economy, the badly handled anticorruption campaign, and feuding among Asad's key lieutenants in 1977. The Syrian President will also probably benefit by the faltering of Egyptian President Sadat's peace initiative--which Asad opposed and predicted would break down.

25X1 [] The party will mount a well-organized effort to ensure that Syrians go to the polls to support Asad. Last summer, the party was embarrassed by the low voter turnout for the assembly election. []

Indonesia

25X1 [] The Indonesian Government's shutdown of six of Jakarta's major newspapers and the arrest of up to 100 student activists over the weekend was intended to preempt planned antigovernment demonstrations and blunt open dissent.

25X1 [] The decision to take these actions may have been reached last Thursday in an emergency meeting of top military officers concerned over the growing opposition to President Suharto and its impact on the election in March, which Suharto is expected to win. Closing the papers will also limit coverage of a potentially explosive political trial in which the alleged corruption of Suharto's wife has received considerable attention.

25X1 [] The government's moves may redound to its disadvantage. Although students and other dissidents may be intimidated for the moment by the sudden crackdown, they have been handed a cause celebre which could win them support from the much

larger body of non-activist students. Restraints on the press may incline the always-active Jakarta rumor mill toward more sensational speculation damaging to the government. [REDACTED]

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Kuwait

[REDACTED] The resignation of the Kuwaiti cabinet yesterday suggests that the country's new ruler, Emir Jabir al-Ahmad, is about to appoint a new prime minister. According to a Kuwaiti Foreign Ministry official, Sheikh Jabir al-Ali will be named to head the new cabinet. Ali has been acting Prime Minister since the death three weeks ago of the former ruler.

[REDACTED] Most of the current ministers are likely to be re-named to their posts, although a few new faces may emerge. There is no indication that a decision has yet been made on the appointment of a new Kuwaiti Crown Prince. [REDACTED]

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Spain

[REDACTED] The Spanish Communist Party announced yesterday that it will convene a party congress in Madrid in early April to coincide with the first anniversary of the party's legalization. The congress will be the party's ninth and its first inside Spain since the Civil War. Party leader Santiago Carrillo has promised to use the congress to improve the party's image by increasing internal democracy, including the selection of all of its officers by secret ballot. [REDACTED]

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Bulgaria

[REDACTED] The Bulgarian Government without warning has reduced the electricity supply in Sofia. Regulations announced last Wednesday restrict the use of electric household appliances in the peak consumer demand hours. In addition, electricity will be completely cut off in parts of the capital for two to three hours at unspecified intervals without prior notice. Apparently, industries have not been affected. The announcement did not indicate how long the measures will remain in effect.

[REDACTED] There has been no explanation for the sudden cutbacks, but shortfalls in brown coal production, increasingly relied

upon by the Bulgarians to fuel power plants, could be the cause. Although coal production was planned to increase 15 percent last year, it actually dropped during the first nine months of the year and electric power production was also below the planned level. The Bulgarians are continuing to sell electricity to Turkey to obtain needed hard currency.

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[redacted] The present restrictions will place hardships on a large segment of the population in Sofia. Although consumer grumbling, which rose during 1977, is likely to intensify, we do not expect the electricity cut to lead to antiregime demonstrations. [redacted]

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